

INVESTMENT



While the U.S. economy continues to suffer the ill effects of the post-credit market extremes, there is evidence that the decline is slowing and we are starting to see a few signs of entering into a period (potentially protracted) of stabilization. Warning: This is not to suggest a recovery is on the horizon. We have much yet to work through, and there will be many more ups and downs before we can expect anything resembling a recovery in jobs and the housing market. But first, we need to stabilize from the worst shocks to our economy and financial markets since the Great Depression.

Despite the Federal Reserve's extremely accommodative monetary policy and the influx of capital targeted at the investment banks, many of the same issues that threatened the capital markets remain unresolved. Lack of credit continues as a drain on the economy, as we saw recently with the second consecutive 6-percent contraction in GDP, which was attributed mostly to the continued reduction in business investment (which fell 38 percent in first quarter 2009). Although we are seeing some stabilization in the housing market overall, there are many areas that will see additional price declines. In addition, the stress tests the banks have undergone have indicated that the health of the banks remains somewhat precarious, with many of them needing additional funds to continue to operate. With respect to commercial real estate, the difficulties associated with overleveraging continue to drag down the market, and there is much more pain in store for investors.

We all know that commercial real estate lags the economy. In fact, commercial real estate loans are deteriorating at an accelerating pace, with the delinquency rate on \$700 billion in securitized loans for commercial property more than doubling during the last 2 quarters, according to data provided by Deutsche Bank. As such, the banking industry could see as much as \$250 billion in commercial real estate losses during this downturn, projects Foresight Analytics. Some reports show that more than 700 banks are likely to fail due to their exposure to commercial real estate.

The economic stresses causing commercial real estate fundamentals to deteriorate, particularly additional job losses, are expected to continue throughout the year. And with consumers remaining cautious, concentrating on expanding their savings and replenishing their retirement accounts, investors also should expect slow consumer spending to continue. These factors will further negatively impact the office, industrial, retail, apartment, and hotel property sectors.

Since commercial real estate is a lagging indicator to the economy, RERC estimates stabilization in the economy to occur before year-end 2009 with strong signs of this in the second quarter, and commercial real estate following suit approximately 12 months after stabilization occurs in the economy. That means stabilization in the commercial real estate industry will not begin until mid-2010. Until then and as the commercial real estate market continues to struggle with new depths, watch for:

- Lack of credit availability in the near term.
- Fundamentals to continue to deteriorate throughout 2009.
- Vacancy/availability rates to increase in all property sectors.
- Capitalization rate increases to begin leveling off.
- Rents and property sale prices to continue to decrease.
- Concessions and terms favoring buyers to continue.
- Buy opportunities in CMBS or with distressed debt properties.

Source: Real Estate Research Corporation

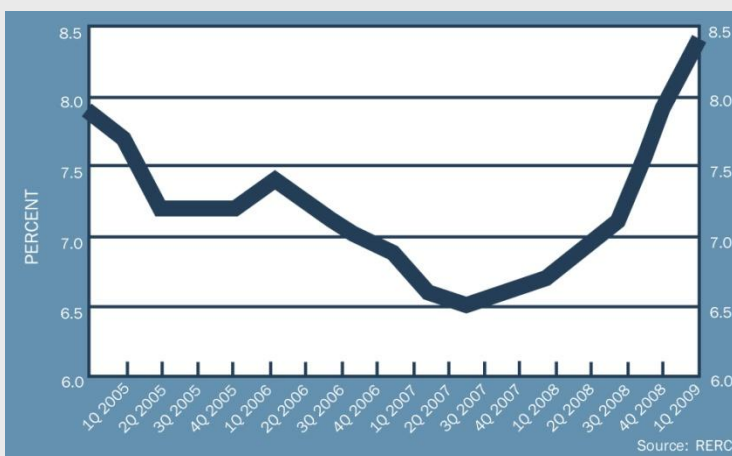
...INVESTMENT CONTINUED

NCREIF TOTAL RETURNS (All Types) – 1Q 2009

METRO	1-YEAR AVERAGE	3-YEAR AVERAGE	5-YEAR AVERAGE	10-YEAR AVERAGE
Atlanta	-13.94%	2.96%	7.45%	7.07%
Boston	-18.14%	9.48%	11.41%	11.68%
Chicago	-12.60%	4.74%	8.78%	8.39%
Dallas	-19.72%	2.37%	7.35%	7.68%
Houston	-5.34%	9.78%	12.30%	10.38%
Los Angeles	-15.77%	7.48%	12.36%	12.03%
Minneapolis	-10.60%	4.14%	8.27%	7.94%
New York	-25.05%	6.23%	11.90%	11.81%
San Francisco	-16.11%	8.75%	12.06%	10.40%
Seattle	-13.02%	8.06%	11.10%	10.44%
Washington D.C.	-11.22%	5.19%	12.85%	12.82%

Source: NCREIF, compiled by RERC.

RERC HISTORICAL REQUIRED GOING-IN CAPITALIZATION RATES



Source: RERC

PROPERTY TYPES

The office market continued to deteriorate during first quarter 2009, with increasing vacancy, negative net absorption, and falling rent. Despite the gloomy status, several RERC institutional investment survey respondents commented that the office market is a good investment opportunity due to distressed and motivated sellers.

The apartment sector’s fundamentals continued to decline during first quarter 2009. Even so, the apartment sector remains one of the strongest sectors during this downturn. Several of RERC’s institutional survey respondents expect the apartment sector to be the first to recover after the recession, and mentioned it as the best investment opportunity.

The industrial market continued to deteriorate during first quarter 2009. According to the Federal Reserve’s April 15, 2009 Beige Book, manufacturing activity declined in most districts, although the pace of decline head slowed, or factory activity had stabilized, in some districts. Orders and shipments of capital goods, autos, paper, and construction-related equipment and products remained slow.

The retail property sector continued to struggle during first quarter 2009 due to slow retail sales. Continued job losses (and the fear of more layoffs), an emphasis on saving and on paying down debt, steep declines in household wealth, and additional losses in retirement accounts have greatly reduced discretionary spending.

The U.S. retail sector is overstored, and many of RERC’s institutional investment survey respondents commented that the retail sector is the property type that investors should avoid.

LOCAL MARKET

Only six investment properties over \$2,000,000 were sold in Metro Detroit during the first half of 2009. A lack of financing and nervousness over the GM and Chrysler bankruptcies has moved investors to the sidelines. Notable sales include: 46480 Magellan, Novi, Flex, \$2,750,000, \$103 per sq. ft., 8.3% cap; 1301 W. Long Lake, Troy, Office, \$12,300,000, \$72.20 per sq. ft.; Novi Ridge Apartments, Novi, \$7,200,000, 7.2% cap, 204 units; and 20530 E. 13 Mile, Roseville, Retail, \$3,168,000, \$121.67 per sq. ft., 8.8% cap rate.

MAJOR INVESTMENT TRANSACTIONS

INVESTMENT	CITY	SALE PRICE
Long Lake Crossing	Troy	\$12,300,000
Novi Ridge Apartments	Novi	\$ 7,200,000
20530 E. Thirteen Mile	Roseville	\$ 3,168,000
46480 Magellan	Novi	\$ 2,750,000

